

# Executive Summary

Utah's economy performed well in 2000, with growth continuing on a moderate track. The decline in Utah's job growth rates bottomed out in the third quarter of 1999. Since 1994, the peak year of the current cycle, the annual rate of job growth has fallen gradually from 6.2% to 2.4% in 1999. This orderly deceleration has now stabilized, and the rate of job growth increased slightly in 2000 to 2.6%, and is expected to be 2.7% in 2001. These increases are largely due to preparations for the 2002 Olympic Winter Games, and favorable growth in information technology, the heart of the "New Economy."

During 2000, the pattern of Utah's economic activity began to change. Construction activity, a major catalyst for growth over the past decade, began to contract in 2000. This decline is expected to continue into 2001 as higher mortgage rates dampen residential construction, and many large projects are completed, some of which were accelerated for hosting the Winter Olympics. Nonetheless, construction jobs in 2001 are expected to remain well above the long-run average of 5.5% of total non-farm jobs. As the national economy slows, it won't bolster the Utah economy to the extent of the 1990s. Likewise, Utah's merchandise exports, flat in the range of \$3.6 billion since 1995, won't be a force for growth. Services are the main driving force in the economy now.

The outlook calls for moderate growth as the state moves past the 2002 Olympic Winter Games. Population, job, and income growth rates in Utah are expected to continue to outpace those of the nation going into 2001. And, unlike the nation, the rate of

non-farm job growth should increase slightly in 2001. Utah's economy remains prosperous with low unemployment and high income growth despite the slowdown in construction.

## International, National, and Regional Context

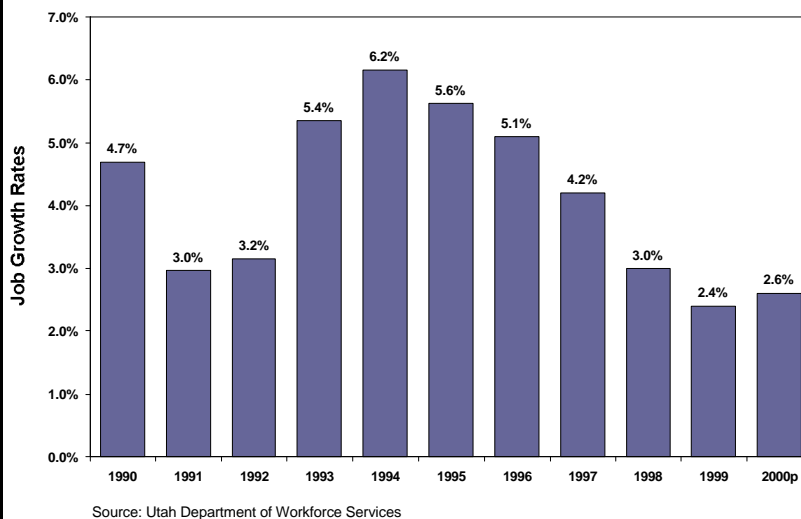
Utah's current prosperity occurs against a backdrop of a healthy international economy, and cooling national and regional economies. The world economy is recovering from the troubles of the late 1990s. Though Asia is on a more stable growth path, Utah's merchandise exports there have not picked up.

The national economy is cooling down from the rapid pace of the past four years, but continues with steady growth. The current expansion, now almost ten years old, is the longest on record. Jobs remain plentiful, real wages are rising, and inflation is low. Worker productivity continues to grow.

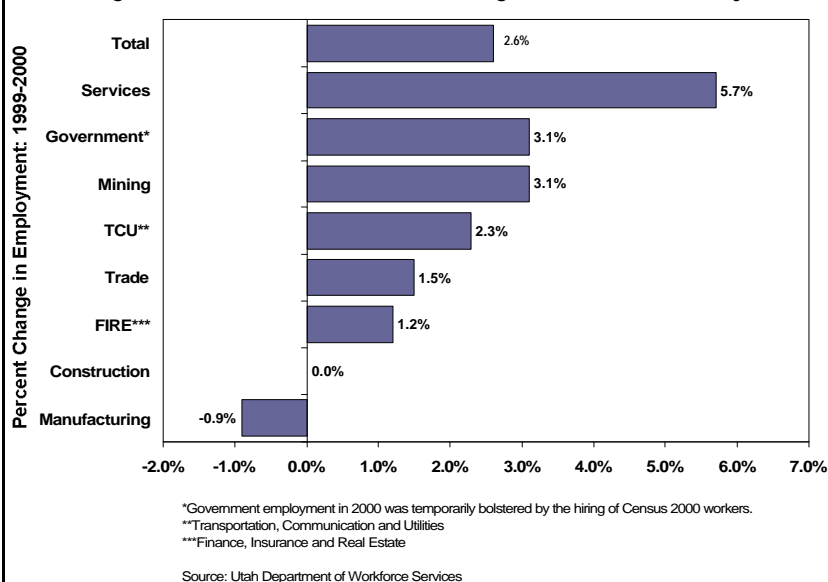
Though inflation-adjusted gross domestic product increased by a blistering 5.2% during 2000, it slowed in the second half of 2000 and is expected to grow 3.2% in 2001. The main concerns at present are the potential downside risks of tight labor markets, a widening trade deficit, low household savings rates, a severe correction in the stock market, and accelerating prices

and wages if productivity does not keep pace. Still, the U.S. economy appears to have more to give and federal budget surpluses, productivity gains, low inflation, relatively confident consumers, and a resilient global marketplace bode well for the U.S. economy during 2001.

**Figure A. The Five Year Decline in Utah's Job Growth Rate has Bottomed Out**



**Figure B. Services are the Main Driving Force in the Economy Now**



For more than a decade the Mountain West has had sustained and strong economic growth. The eight mountain states show population, employment, average annual pay, and per capita personal income growth rates above national averages. Among the mountain states, Utah ranked above the national average in population, employment, and personal income growth rates for the 1990s. While Utah's growth rates have been slowing, Utah remains economically healthy as 2001 begins.

A special feature in this year's Report analyzes the economic relationship between California and Utah. For most of the past 50 years, employment growth in Utah and California has been closely correlated. Although there is a significant relationship between employment growth in California and growth in Utah, Utah's economy is far more dependent on changes in its own economic conditions and those in the rest of the U.S., than it is on changes in conditions in California.

## Themes of the Past Year

In many respects, 2000 represented a change from recent years. Although the economy remains strong, it appears to be on a moderate growth path. With construction cycling lower, rapid growth in the economy at large is unlikely. Despite the tempering of activity, growth remains a dominant theme of the past year. Even though the economy is slowing, growth is still occurring and the economy remains prosperous.

Sub-themes involve the performance of various sectors: defense and high tech are up; merchandise exports, agriculture, energy and minerals are level; and construction and tourism are down.

## Growth Continues

### Population

On April 1, 2000, the U.S. Census Bureau conducted the 22nd national census. The Census Bureau released national and state unadjusted population totals on December 28, 2000. This is the first set of data released from the 2000 decennial census. Data for smaller geographical areas (down to the block level), along with more detail, will be released beginning March 31, 2001, and will continue through 2003.

The total 2000 population count for the U.S. was 281,421,906. This represents a population increase of 32,712,033 persons, or 13.2% from 1990.

Utah's population reached 2,233,169 in 2000. This represents a population increase of 510,319 persons, or 29.6% from 1990, ranking Utah fourth among states in population growth

increase from 1990 to 2000. Utah grew more than twice as fast as the U.S. during this ten year period.

And, over the longer term, economic and demographic projections also confirm Utah's growth trajectory. It is expected that Utah's population will reach approximately 2.7 million in 2010, surpass 3.0 million by 2020, and tally roughly 3.7 million by 2030.

## Jobs and Wages

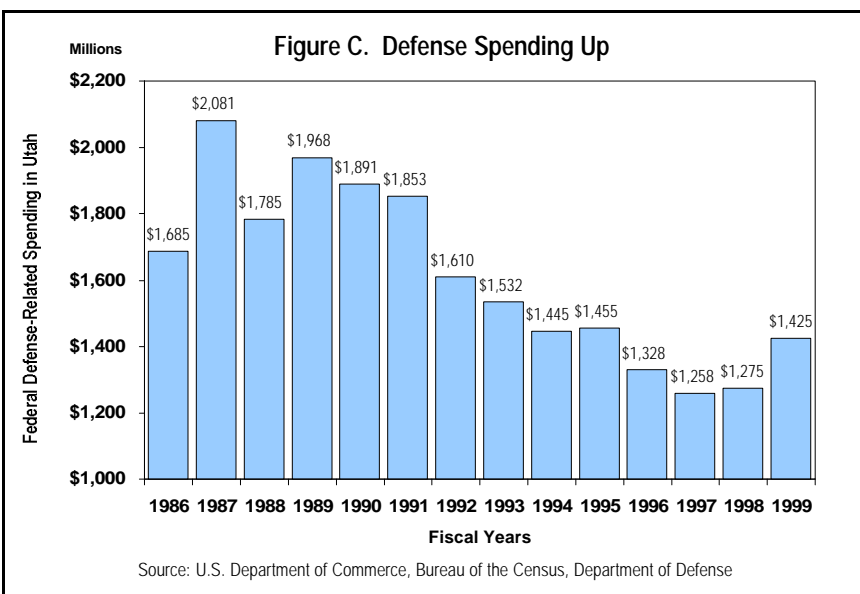
Economic activity in Utah, as measured by the rate of job growth, slowed from 6.2% in 1994 to 2.4% in 1999, before increasing slightly to 2.6% in 2000. Despite this moderation, Utah is currently the 11th fastest growing state in terms of job creation (November 1999-November 2000). During 2000, Utah added 27,100 net new jobs, and the unemployment rate fell to 3.3%. The majority of these new jobs were in the service sector which now comprises slightly more than one in every four jobs in the state.

The average Utah wage increased 5.1% in 2000, to \$28,900. This is up from 1999's 3.8% increase, and higher than the consumer price increase of 3.4%. Wages have now increased faster than inflation for six consecutive years.

## Defense and High Tech Up

### Defense

Utah's defense industry continued to rebound in 2000, as base closures and realignments in other states shifted jobs and military spending to Utah. Hill Air Force Base has become the Air Force's new "center of excellence" for low-observable technology. This new classification, the result of a prime military contractor relocating to Hill, will help ensure the viability of this large Utah employer. Although the defense industry in Utah and in the US as a whole has decreased significantly since the end of the Cold



War, in the past few years this trend has shown signs of leveling. Defense spending in Utah in 1999 totaled \$1.42 billion, rising nearly 12% from the previous year.

### High Tech

Utah's high tech sector continues to grow, albeit slowly, despite downturns in its early successes such as Novell, WordPerfect, Evans & Sutherland and Iomega. At present, the state's technology sector is characterized by numerous small firms, a few medium-sized firms, and almost no large firms. With 65,000 workers, it represents 6.0% of the state's nonagricultural worker base.

There are bright spots on the horizon for Utah's high tech sector. One is the possible continued expansion of activities at the Micron facility in Lehi. Plans at the Micron facility include the installation of a new line to manufacture 12 inch wafers. If this process is successful and the demand for chips remains strong, employment at the Lehi plant could reach 3,000 by 2003.

An even broader impact on the state's technology sector could be the Intel research facility in Riverton. At present, Intel is putting in place its administrative infrastructure and should begin hiring its first R&D workers in 2002. Intel's current plans call for the addition of 600 R&D workers per year at the Utah facility up through 2009. The importance of Intel is not limited to potential size of its work force. Rather, Intel could create new synergies within the technology sector, encouraging both the development and possibly the relocation of new technology companies.

### Exports, Agriculture, Energy and Minerals Level

International merchandise exports from Utah have remained at approximately \$3.6 billion for six consecutive years. This measure of exports excludes business services (such as financial services or computer software), educational services (international students studying in Utah), and tourist services (an estimated 750,000 foreigners visited Utah during 2000). Still, exports of primary metals, transportation equipment, electric and industrial machinery, instruments, chemicals, food, coal, and

other manufactured merchandise have not been a source of new growth for Utah since 1995.

### Agriculture

While incomes received by farmers and ranchers have varied over time, the financial position of Utah agriculture is healthy—the value of farm assets (primarily real estate) and farm equity has increased. This trend will likely continue in the future but, some sectors of Utah agriculture are facing troubled times.

### Energy

Crude oil production declined slightly in 2000, although natural gas production increased. Crude oil production is estimated to be about 15.5 million barrels in 2000, some 4.5% below the 1999 level. Wellhead prices were much higher in 2000 than in recent years and will encourage oil and gas drilling. Coal production was near 27 million tons, as it has been for the past few years.

### Minerals

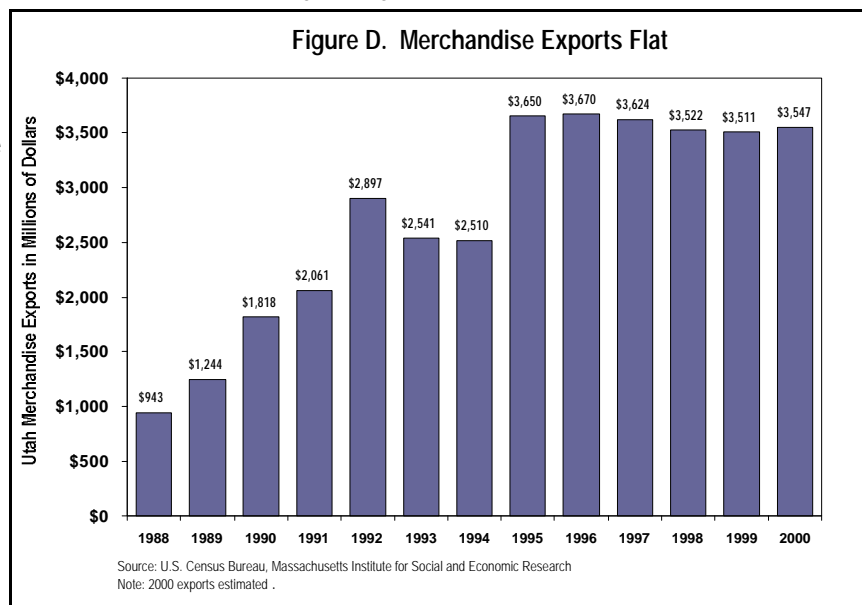
Utah's mineral industry continues to maintain near record-level valuations, although some slowdown in the production of industrial minerals occurred in 2000. The estimated value of mineral production was \$1.9 billion in 2000, an increase of \$70 million from 1999.

The value of base metal production, which includes copper, magnesium, molybdenum, and the like, was \$770 million; coal production was \$465 million; industrial minerals production, which includes sand, gravel, crushed stone, potash, lime, gypsum, and others, was \$450 million; and precious metals production, gold and silver, was \$210 million. In 2001, the value of mineral

production in Utah is expected to remain relatively high.

### Construction and Tourism Down

**Construction**  
In 2000, the value of permit authorized construction in Utah was \$3.93 billion, less than 2% below last year's record high of \$3.97 billion. This near record pace is due, in part, to the continued strength of the nonresidential sector, which in 2000 generated \$1.2 billion in new construction activity. The nonresidential sector was led by two major projects: McKay Dee Hospital in Ogden City (\$104 million) and The Gateway a mixed-use commercial



development in downtown Salt Lake City (to date, \$92.6 million).

The residential sector, this past year, has not fared quite as well as the nonresidential sector. In terms of residential construction value, 2000 ranks as one of the best years ever, recording nearly \$2.2 billion in new construction. However, when measured in terms of the number of new dwelling units, residential construction activity is down 10%, dropping from 20,400 in 1999 to about 18,300 units in 2000.

### Tourism

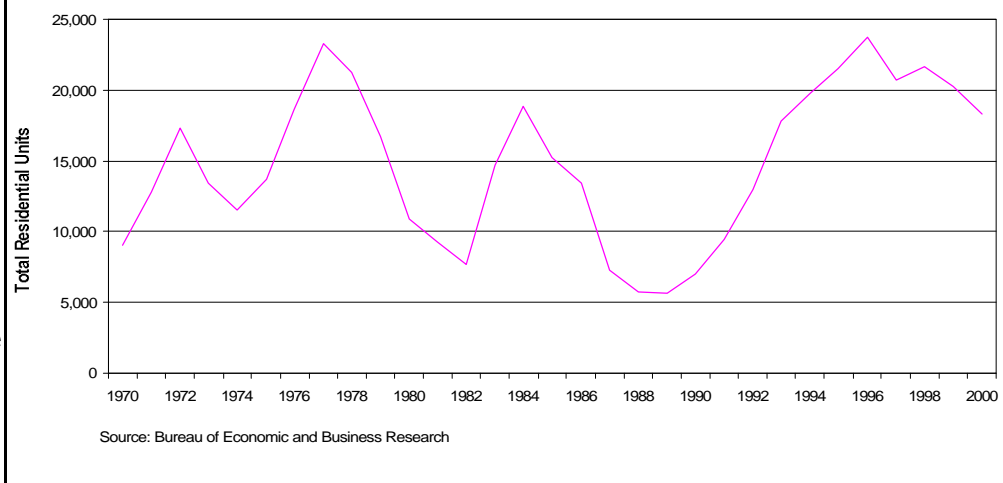
Tourism arrivals to Utah decreased in 2000 for the first time in several years. Visitation declined at both national and state parks. Skier days were down nearly 5% over the 1998/99 season due to marginal snow conditions and Y2K fears. Passenger counts at Salt Lake City International Airport and visitation to Utah's Welcome Centers remained largely unchanged for the year. Vehicle traffic along Utah's major highways and Interstates registered positive growth, although slower than in recent years. During 2000, an estimated 17.8 million non-resident visitors traveled to Utah for leisure and/or business purposes, a 2% decrease from 1999. Notwithstanding the decline in the number of tourist arrivals to Utah, visitor spending actually increased by 1%, to \$4.25 billion.

### Significant Issue: The Coming Boom in School-Age Population

Utah's long term prosperity depends on providing the highest quality education for the dramatic increase in school children over the next two decades. Educating these children while maintaining a reasonable tax burden will be a major challenge for policy makers.

Utah consistently ranks among the youngest and fastest growing populations with the highest fertility rates and largest household sizes among all states. These distinguishing demographic characteristics should continue into the foreseeable future. Among the most significant of the long-term demographic trends confronting the state is the expected substantial increase in the school-age population, (those aged 5 to 17), beginning in

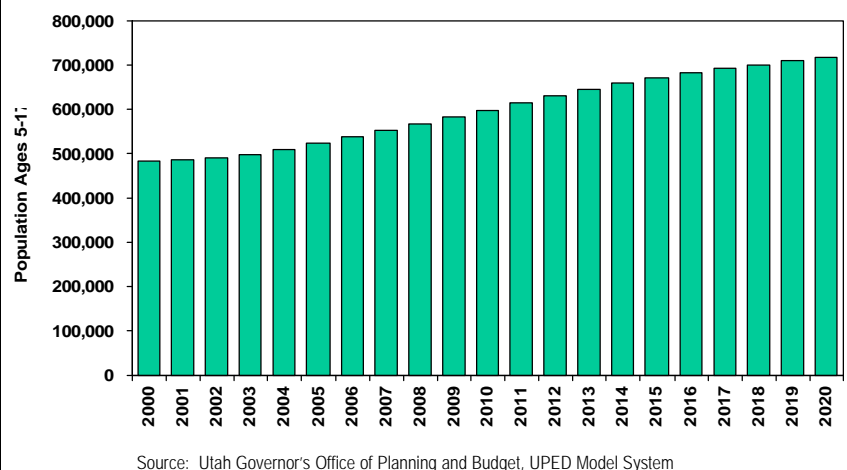
Figure E. Construction Cycling Down



2004 and extending to at least 2015. This acceleration in the growth rate of the school-age population is largely explained by the pattern of births in the state over time, especially the large number of births in the early 1980s. The number of births is determined by the number, age structure, and fertility patterns of women in Utah, which is further influenced by the cycles of in and out migration.

After over a decade of decelerating growth rates in the number of school-age persons in Utah, this trend will soon reverse. Growth rates of the school-age population will accelerate significantly over the next five years and remain high for the subsequent ten years. According to projections from the Utah Governor's Office of Planning and Budget, the school-age population is expected to increase to 523,000 by 2005 and to about 600,000 ten years from now. From 2005 through 2015, an average of nearly 15,000 school-age persons will be added to the Utah population each year. There will be 114,000 more school-age persons in the state in 2010 as compared to 2000, which is an increase of 24%. The total population is expected to grow by roughly the same rate to

Figure F. Utah School-Age Population



2010, so that the school-age population share of the total population is expected to remain constant at about 22.5%.

### **Looking Ahead**

Utah's economy should continue on a moderate growth track during 2001. Because of the build-up for the Olympics, job growth should accelerate a bit to 2.7%. The unemployment rate is expected to remain low, 3.5%, which, though slightly higher than 2000, will still be lower than the previous few years. The average wage should once again increase just above inflation. Because of the beginning decline in construction, the pattern of growth is changing.

Over the next few years, Utah's population and economy will continue to grow. During this period the growth in school-age population will begin to challenge educators and policy makers. Finding the resources to fund the highest quality education without hampering other programs, such as transportation, and while maintaining a healthy tax climate, will be a delicate balancing act.